# LISTED GOVERNMENT LINKED COMPANIES (GLCs) IN MALAYSIA: AN EVALUATION THROUGH FINANCIAL RATIOS, CASH FLOW AND MACROECONOMIC FACTORS

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## ABSTRACT

This research is to identify the performance of listed Government Linked-Companies (GLCs) using the financial ratios, cash flow from operating and macroeconomic factors. 11 years of performance was studied from 2007 to 2017. Data were extracted from the annual reports of company and included information from the income statement, balance sheet, cash flow statement and notes to the accounts published in Bursa Malaysia websites. The study covered 44 Government Linked Companies consist of 11 non-*Shariah* and 33 *Shariah* compliant that listed in Kuala Lumpur Stock Exchange. STATA 15 software was used in order to analyze the data by using diagnostic test, panel data test and hierarchal panel regression test. Panel regression tests have been used to determine the relationship of the variables. The findings of the study show there is a significant impact in the results through the different performance result of Government Linked-Companies when using financial ratios and cash flow from operating and macroeconomic factors. The study also found that cash flow from operating influence the profitability for all GLCs and non-*Shariah* of listed Government Linked-Companies in Malaysia with other internal and external variables. Besides, providing suggestions for further research work, this study provides several recommendations for researcher to obtain more comprehensive analysis of the profitability of GLCs.



**Keywords:** financial performance, government linked company, cash flow, financial ratios, profitability

## ABSTRAK

Kajian ini adalah untuk mengenal pasti prestasi Syarikat Berkaitan Kerajaan (GLCs) dengan menggunakan nisbah kewangan, aliran tunai daripada operasi dan factor-faktor makroekonomi. Prestasi syarikat untuk 11 tahun dikaji bermula dari tahun 2007 sehingga 2017. Data diambil daripada laporan tahunan syarikat iaitu penyata pendapatan, lembaran imbangan, penyata aliran tunai dan nota kepada akaun yang diperolehi di dalam laman sesawang Bursa Malaysia. Kajian ini meliputi 44 Syarikat Berkaitan Kerajaan yang terdiri daripada 11 syarikat yang tidak patuh *Shariah* dan 33 syarikat patuh *Shariah* yang disenaraikan di Bursa Saham Kuala Lumpur (BSKL). Perisian STATA 15 telah digunakan untuk menganalisis data dengan menggunakan ujian diagnostik, ujian panel data dan *hierarchal* ujian regresi panel. Ujian regresi panel telah digunakan untuk menentukan hubungan antara pembolehubah. Dapatan kajian menunjukkan terdapat kesan yang ketara dalam keputusan melalui hasil prestasi yang berbeza bagi Syarikat Berkaitan Kerajaan apabila keputusan menggunakan aliran tunai daripada operasi dan faktor-faktor makroekonomi digabungkan. Kajian ini juga mendapati bahawa aliran tunai daripada operasi mempengaruhi keuntungan untuk keseluruhan Syarikat Berkaitan Kerajaan dan Syarikat Berkaitan Kerajaan patut *Shariah* dengan pembolehubah dalaman dan luaran yang lain. Selain daripada menyediakan cadangan untuk penyelidikan yang akan datang, kajian ini memberikan beberapa cadangan kepada penyelidik untuk mendapatkan analisis yang lebih menyeluruh berkaitan keuntungan Syarikat Berkaitan Kerajaan.




**Kata kunci**: prestasi kewangan, syarikat berkaitan kerajaan, aliran tunai, nisbah kewangan, keuntungan

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| | | |
|---|---|---|
| BLR | : | Base Lending Rate |
| CFFO | : | Cash Flow from Operating to Total Asset |
| EXC | : | Exchange Rate |
| GLCs | : | Government Linked Companies |
| INF | : | Inflation Rate |
| ROA | : | Return on Assets |
| ROE | : | Return on Equity |
| TA | : | Natural Log Total Assets |
| TD | : | Total Debts to Total Assets |

# CHAPTER 1

# INTRODUCTION

## 1.0 Introduction

GLCs, or Government Linked Companies are companies which are controlled by the government either directly through majority shareholdings or indirectly with minority interest. It all started in 1971 with the New Economic Policy (NEP) which targeted to eliminate poverty and create a more harmonious country by restructuring the Malaysian economics. One of the key benchmarks was to raise "*Bumiputera*" share of the economy from 2.4% to 30% (Rogayah, 2014). Under the NEP, and its successor the National Development Policy, contracts corporations and concessions were dished out to Malay businessmen, who then grew their businesses rather successfully. In Asian Financial crisis 1997, the companies collapsed and government stepped in and the subsequent bailout meant many of those privately-held components become GLCs.

In Malaysia, the preparation of financial reporting in line with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards (IFRSs"). In Malaysia, the Malaysian Accounting Standards Board (MASB) is encouraging the disclosure of voluntary data in the annual reports. MASB 1 (Financial Statements Presentation) encourages the inclusion in the annual reports of financial review and additional information.

Non-obligatory accounting ratios are one of the important voluntary items revealed in an annual report. For many reasons, accounting ratios are commonly used. They

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**APPENDIX A**

List of Government Link Companies

| GLCs | Percentage of shareholding by the Government |
|---|---|
| **Employees Provident Funds** | |
| Commerce Asset-Holding | 20.00% |
| CIMB | 14.20% |
| Malaysia Building Society | 63.00% |
| Malaysia Resources Corporations | 30.00% |
| **Lembaga Tabung Haji** | |
| BIMB Holdings | 30.00% |
| Syarikat Takaful Malaysia Berhad | 22.20% |
| **Lembaga Tabung Angkatan Tentera** | |
| Affin Holdings | 47.20% |
| Boustead Holdings | 70.00% |
| Boustead Properties | 39.20% |
| PSC Industries | 23.10% |
| UAC | 27.30% |
| Johan Ceramics | 60.00% |
| **Petroliam Nasional** | |
| Bintulu Port Holdings | 33.00% |
| KLCC Property Holdings | 51.00% |
| MISC | 62.00% |
| Petronas Dagang | 70.00% |
| Petronas Gas | 61.00% |
| **Minister of Finance Incorporated** | |
| Bursa Malaysia | 20.00% |
| Pos Malaysia & Services Holdings | 33.30% |

| GLCs | Percentage of shareholding by the Government |
|---|---|
| Commerce Asset-Holdings | 26.00% |
| CIMB | 18.70% |
| D'nonce Technology | 20.00% |
| Faber Group | 41.00% |
| Malaysia Airport | 73.00% |
| Malaysia Airlines System | 69.00% |
| Park May | 25.00% |
| Proton Holdings | 38.00% |
| Plus Expressway | 67.00% |
| Tenaga Nasional Berhad | 37.00% |
| VADS | 24.50% |
| Time Engineering | 45.00% |
| Time dotCom | 50.30% |
| Uda Holdings | 50.00% |
| UEM World | 63.00% |
| Cement Industries of Malaysia | 34.00% |
| Opus International Group PLC | 39.10% |
| Pharmaniaga | 34.70% |
| UEM Builders | 32.80% |
| **Permodalan Nasional & Funds** | |
| BIMB Holdings | 30.00% |
| Central Industries Corporation | 39.00% |
| Chemical Company of Malaysia | 64.00% |
| Formosa Prosanac Industries | 26.00% |
| Golden Hope Plantations | 57.00% |
| Mentakab Rubber | 34.20% |
| Megara Properties | 35.30% |
| Island & Peninsular | 60.00% |
| Kumpulan Guthrie | 74.00% |
| Guthrie Ropel | 42.90% |
| Highlands & Lowlands | 40.70% |
| Malayan Banking | 51.00% |
| Malaysian Industrial Development | 37.00% |
| MNI Holdings | 75.00% |
| MNRB Holdings | 60.00% |
| NCB Holdings | 56.00% |
| Sime Darby | 45.00% |
| Sime Engineering Services | 31.50% |
| Tractors Malaysia Holdings | 32.40% |
| Sime UEP Properties | 51.00% |
| UMW Holdings | 60.00% |
| Ya Horng Electronic ( Malaysia ) | 30.00% |

## APPENDIX B

Summary of the studies in investing the cash flow as a tool in financial decision.

| Authors | Sampling / Population | Variables | Finding |
|---|---|---|---|
| Beaver ( 1996 ) | Statistically analysis on 158 companies - 79 non-perform and 79 performed based on size in the industry | Cash Flow / Total Debt<br>Cash Flow / Total Assets<br>Cash Flow / Net Worth | Cash Flow/Total Debt best predictor with a 13% misclassification error one year prior to failure and 21%, 23%, 24% and 25% for two to five years prior. |
| Deakin (1972) | Multivariate dimensionality reduction technique for five years on 64 firm. Validity performance on 11 non-perform and 23 performed firm based on industry and size. | Cash Flow / Total Debt | Variable significantly for year one, two and three. |
| Blum (1974) | Statistically analysis test on 21 company for six years prior to failure. Sampling based on industry, size, employees and fiscal year. | Cash Flow / Total Debt | Significantly predictor for the variable. |
| Norton and Smith (1979) | Discriminant analysis on linear multiple stepwise for four years prior to failure. Sampling base on size and industry | Cash Flow / Sales<br>Cash Flow / Total Assets<br>Cash Flow / Net Worth<br>Cash Flow / Total Debt | i. Cash Flow / Total Assets<br>ii. Cash Flow / Total Debt<br>Is the best formula model within three years prior to the failure |

| Authors | Sampling / Population | Variables | Finding |
|---|---|---|---|
| Largay and Stickney (1980) | Single case study on W.T. Grant Company. Trend analysis of cash flow operation with other accruals variables. | Cash flow from operations | Cash flow from operations more accurately indicated impending failure up to 10 years prior to WT Grant's demise. Profitability and stock prices began showing signs only as early as two years prior to failure. |
| Lee (1982) | Single case study on Laker Airways by comparing the profitability and operating cash flow. | Cash flow from operations | The variable is indicated three year prior to the failure but not the profitability |
| Mensah (1983) | Five years of 60 companies prior to failure. Validation sample composed 11 bankrupt and 35 performed companies. | Cash Flow /Total Liability<br>Cash Flow / Total Assets<br>Cash Flow / Sales<br>Cash Flow / Net Worth | In historical cost model, Cash Flow / Net Wolth has a significant impact and in the second rank in specific price level model |
| Taffler (1984) | Model Driven Architecture and adjusted model is used with 24 failed and 49 n0h-failed companies within one year. | Cash Flow/Total Liability | Variable is defined as second most significant predictor. |
| Casey and Bartczak (1984) | Five years analysis 0h 60 non-perform companies and 230 performed companies prior to failure. Three cash flow ratios and six accrual basis ratios used in the analysis. | Operating Cash Flow (OCF) defined as working capital from operations adjusted by non-cash working capital accounts,<br>i. OCF / Current Liabilities<br>Ii. OCF/total liabilities. | None of the Cash flow ratios were strongly indicate the failure. However, results show that cash flow variable is better than accrual variables in identifying failures. |

| Authors | Sampling/ Populatiou | Variables | Findiug |
|---|---|---|---|
| Casey and Bartczak (1985) | Five years analysis on 60 non-perform companies and 230 performed companies prior to failure. Model Driven Architecture with cash flow ratios and accrual basis ratios used in the analysis. | Operating Cash Flow (OCF) defined as working capital from operations adjusted by non-cash working capital accounts,<br>i. OCF / Current Liabilities<br>ii. OCF/total liabilities. | Cash Flow ratios did not significantly increase the predictive ability of the accrual MDA models. On re-interpretation of their results, the cash flow variables significantly increased explanatory With the power and predicted probabilities of failure/non-failure of the accrual model. |
| Gentry et al (1985a) | Analysis on 33 bankrupt and 33 performed companies in three years. | Helfert's (1972) model and serial data using total net flow. | Cash Flow from operations is not significant prior to failure. However, dividend component was significantly in cash flow variables. |
| Gentry et al (1985b) | Analysis on 33 bankrupt and 33 performed companies in three years. The authors access the ability of accrual ratios and cash variables. | Helfert's (1972) model and serial data using total net flow. | Accrual ratios were not significantly related. However, dividends, investment and cash receivables variables were reliable predictors a year prior to failure. |
| Viscione (1985) | Twenty four failure companies up to five years prior to failure. Comparison between cash flow from operations with selected accrual ratios. | Cash flow from operations | The variables is not showing a strong indicator for financial distress. |
| Gombola *et al*(1987) | Analysis of twenty one accruals ratios with three cash flow ratios for 77 failed and non-failed firms. Data collection for a years prior to failure. | i. Cash Flow from Operations / Assets<br>ii. Cash Flow from Operations / Sales<br>iii. Cash Flow from Operations / Debt | None of the cash flow ratios were significant predictors for company failure. |

| Authors | Sampling / Population | Variables | Finding |
|---|---|---|---|
| Gahlon and Vigeland (1988) | Five years serial data for 60 non-performed companies and 204 performed companies by comparing the cash flow profiles. | i. Cash flow from sales activity<br>ii. Cash flow from operations<br>iii. Cash flow after debt retirement<br>iv. Cash Coverage ratio | All variables give an indication as earlier as five years prior to failure. |
| Dambolena and Shulmen (1988) | Recomputed Altman's model 1968 and Gentry et al 1985b model for 25 bankrupt companies matched with 25 performed companies. | Net liquid balance which equals operating cash flows less increases in cash investments plus increases in long term financial flows. | Net liquid balance improved the predictive accuracy of both models especially for non-bankrupt firms. Improvement in predictive accuracy was greater for the Gentry *et al* model than for Altman's model. |
| Aziz *el al* (1988) | 49 failure firms matched with 45 successful firms. The authors investigated on cash flow potential extract from Lawson's model. | Extract from Lawson cash flow identity model. | Cash tax paid was the most consistent variable with operating cash flow ranking as the second most significant predictor. |
| Aziz and Lawson (1989) | 49 failure firms matched with 45 successful firms for five years prior to failure. The authors investigated on Altman's Z, Zeta models and a mixed model comprising cash and accrual variables. | Extract from Lawson cash flow identity model. | The cash flow model was more accurate in predicting bankruptcies. Operating cash flow and debt cash flow were the two most significant cash variables. |

| Authors | Sampling / Population | Variables | Finding |
|---|---|---|---|
| Gilbert *et al* (1990) | Used two type of models base on 52 bankrupt and 208 non-bankrupt firms. Fourteen ratios used consist of three cash flow ratios. | i. cash flow from operations/current liabilities (CFFO/CL)<br>ii. cash flow from operations/total liabilities (CFFO/TL)<br>iii. cash flow from operations/total assets. | CFFO/TL significant in classifying bankrupts and non-bankrupts and CFFO/CL significant in classifying bankrupt and distressed. The finding reveal that cash flow ratios add significantly to prediction accuracy of accrual models. |